

Enhance SMEs Performance through Implementing Quality Strategic Leadership, Trust in Leader, Strategic Planning

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Abstract

This study aims to find out how Quality strategic leadership is key in creating trust in leaders, formulating strategies and improving SME performance in Indonesia. The sample used in this research is SMEs in the East Java region, Indonesia totaling 246 SMEs with various sectors. The results showed that strategic leadership had an influence on how SMEs formulated their strategies. Strategic leadership, if considered, will form a strategic plan in accordance with the character of their SMEs and that strategic plan will improve SMEs performance and competitiveness. Strategic leadership is also able to create trust in leaders that have an impact on improving the performance of SMEs. A Quality strategic leader is also able to improve performance directly. The actions taken by management in SMEs are able to manage conditions in the SMEs where management's role in problem solving, relations between workers will also have an impact on SMEs performance. Based on the limitations of the study, we recommend conducting research on SMEs with a homogeneous SMEs sector to obtain more specific analytical results in accordance with the existing SMEs sector.

Keywords: quality strategic leadership; strategic planning; trust in leader.

1. Introduction

SMEs is one of the important sectors for economic growth in various countries (Storey, 2016). Culkin & Smith, (2000) emphasized that SMEs which have a maximum of 200 employees constitute the largest business sector in the world economy and the government paid special attention to SMEs by issuing several regulations that support SME growth in their country's national strategy (Abdullah & Bakar, 2000).

Strategic issues in developing SME include several things, namely, the availability of quality natural resources, competitive and competitive; the availability of creative human resources, competitive, growing and diverse SMEs, the availability of financial funding, expansion of market share, availability of competitive infrastructure and technology, and institutions that support SMEs (Research & Education, 2017).

SMEs in Indonesia have considerable potential. To optimize MSME still requires efforts so that SMEs products and management can become Go Glocal. A special study is needed on how to manage SME in various sectors in order to improve SME competitiveness.

In any organization, an understanding of strategic leadership has an important role which will make it easier for management to direct their organizations to a better direction (Özer & Tinaztepe, 2014). Voelpel, Leibold, & Eckhoff (2006) emphasize strategic leadership as the ability of leaders to predict, manage flexibility and empower employees to create the strategies needed. Good organizational leaders are able to identify and be more flexible. Some leadership elements that describe the scope of leadership include; complexity, time span, and focus (Guillot, 2003). Strategic leadership at SME has its own uniqueness because it has different characteristics from other

organizations. UMKM performance is one of the things that is challenging and requires the art of how leaders see potential strategies and will encourage ways of thinking to bring better performance (McCleskey, 2014). This is in line with research conducted by (Titisari, Susanto, & Prajitiarsari, 2018) which in his research shows that the strategic role of leadership will have an impact on SMEs performance.

Besides that strategic leadership also has an important role for employees. With a good strategic leadership will empower employees to form attitudes and work personality. This personality is the organizational citizen behavior (OCB) that reflects cooperative employees. While the basic attitude will indicate that employees involved in organizational citizen behavior respond to the organization's actions. This form of OCB emerges through trust in leaders (Titisari, 2014). With the trust in leader, employees will have a commitment to the goals of the organization (Hitt, Keats, & Yucel, 2003).

SMEs generally have a traditional managerial pattern that often ignores how leadership roles. The management pattern of SME in Indonesia is more influenced by the prevailing cultural system. This study tries to examine how quality strategic leadership creates trust in leaders, strategic planning, and examines its effect on the performance of SMEs in the East Java region, Indonesia.

2. Literature

2.1. Quality Strategic Leadership

Leadership plays an important role in the success or failure of an organization. The relationship between leadership and performance has been widely discussed. Based on (Kerr,

Schriesheim, Murphy, & Stogdill, 1974), good leadership will be able to produce commitment and job satisfaction that have an impact on improving organizational performance.

Quality Strategic leadership plays an important role in improving SME performance. Strategic leadership will provide a good understanding for management to manage their resources and maximize them to improve the performance of SMEs (Titisari et al., 2018) with the quality strategic leadership, employees in the organization will be able to work in accordance with organizational goals more optimally.

2.2. Trust in Leader

Various literature describes the trust in leader will strengthen how the relationship between employees and leaders. With the belief in the leadership, employees will be more loyal to the organization and have an impact on organizational citizen behavior (Podsakoff & MacKenzie, 1997). Trust in leader is a relationship between two or more parties between the leader and the abbaan involving voluntary acceptance of the risk of hope that the person who is trusted will make an action that has a positive impact on those who trust. (Abid, Gulzar, & Hussain, 2015)

Titisari (2014) in her research also revealed how trust in leaders is seen as an important key in organizations. Trust in leadership is seen as a forming factor in Organizational citizen Behavior that has a positive impact on the performance of an organization.

2.3. Strategic Planning

The organization needs a strategy to achieve the goals that have been set before and continued with the determination of the strategic plan in the form of activities and allocation of resources needed to achieve these goals (Susanto, 2017)

Organizational strategy is an important stage that must be owned by every organization. Without a broad understanding and description of strategy, management cannot communicate a clear strategy to employees (Susanto, 2017). The development of the concept of strategic planning has a fairly rapid development. Pearce, Robinson, & Subramanian (2000) stated the importance of strategic planning for organizations in improving organizational performance. The strategy focuses on whether the organization is able to survive in both the long and short term.

Strategy must be implemented effectively; therefore strategic planning must combine the right decisions with organizational goals. The right decision in question is how the leadership's role in seeing opportunities and threats from both the external and internal environment of the organization. Strategic planning that is compiled must be flexible, comprehensive and integrated with environmental challenges designed to achieve organizational goals (Susanto, 2016).

2.4. Quality Performance of SMEs

Performance is a measurement of the achievements or success of a company or organization that is measured during a certain period (Hafeez, Shariff, & Lazim, 2012). There are two points of view in measuring performance, namely the objective approach and the subjective approach (Chandler & Hanks, 1994). The subjective approach is an approach that measures performance based on managers' perceptions of company performance, while the objective approach is an approach that measures performance based on financial data.

Various studies have discussed a lot about performance measurement in SMEs. Measurements that are often used to measure the performance of SMEs are judged by financial performance (Covin & Slevin, 1989). Performance appraisal is seen through the level of sales, sales growth, revenue and overall performance. In addition to the financial aspects, the

performance of SMEs can also be measured through other aspects, namely customer satisfaction and productivity levels (Titisari, Susanto, & Prajitiasari, 2018). This study emphasizes the combination of financial performance and aspects of consumer satisfaction as a reflection of the performance of SMEs.

3. Research Model

Based on the paradigm previously discussed regarding the interrelationships between variables, it can then be developed in the following research model:

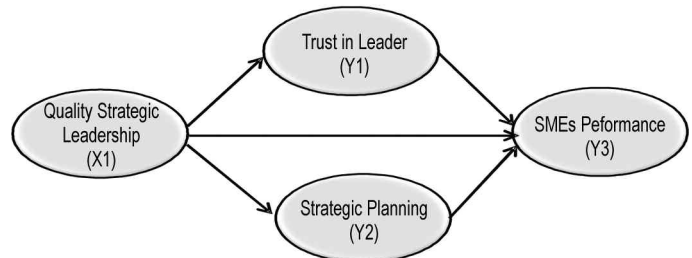


Figure 1. Research Model

Based on the research model, the research equation can be arranged namely $Y3 = \alpha_0 + \alpha_1Y1 + \alpha_2Y2 + \alpha_3X1 + \epsilon$, where "X" is an exogenous variable, "Y1" is an Intervening variable, "Y2" is an intervening variable, and "Y3" is an endogenous variable. Based on phenomena, theories and concepts in the conceptual framework, hypotheses can be arranged as follows: (H1) Quality Strategic Leadership Influences trust in leaders, (H2) Strategic leadership Influences Strategic Planning, (H3) Strategic Leadership influences SMEs Performance, (H4) Trust in Leaders influences the performance of SMEs, (H5) Strategic Planning influences the performance of SMEs.

4. Research Methodology

4.1. Research Design

This research is a quantitative study that aims to find out how the role and influence of Quality strategic leadership in creating trust in leaders, strategic planning, and SME performance in Indonesia with a focus on the area of East Java.

Variable Quality Strategic Leadership uses 3 dimensions of measurement (Hitt et al., 2003) namely (a) Vision; (b) Organizational Culture; (c) balanced control. From 3 dimensions, then arranged into 10 questions (SL1-SL10). The variable Trust in leadership is measured through 4 dimensions used by Bakiev (2013), namely (a) Integrity; (b) Competence; (c) consistency; (d) Loyalty. From the 4 dimensions then arranged into 12 questions in the questionnaire (TL01-TKL12) Strategic planning variables are measured using 4 dimensions of measurement (Pearce et al., 2000) namely (a) Formulation Stage; (b) Implementation Phase; (c) Control stage. The dimensions of strategic planning are then organized into 12 questions in the questionnaire (SP01-SP12). Whereas endogenous variables of SMEs performance are measured through 3 dimensions (Titisari et al., 2018), namely (1) Sales Level; (2) customer satisfaction; (3) level of productivity. From the 3 dimensions of measurement, the SMEs performance variable is organized into 12 questions in the questionnaire (P01-P12).

The questionnaire was compiled and designed using a Likert scale. Testing the research instrument is done by testing the validity, reliability and then testing the structural equation model, including confirmatory factor analysis (McDonald & Ho, 2002).

4.2. Population and Sample Design

Existing data were collected by survey method to test the research hypothesis. Preliminary research was conducted to

test the questionnaire given to SMEs. Data was collected in a period of 4 months starting in July 2018 until November 2018. The sample used in this study amounted to 300 SMEs samples with those engaged in various sectors. All participants are SMEs members where each SMEs is represented by one participant. The questionnaire was given to these participants by involving research assistants and the participants had at least 7 days to return the questionnaire. Of the 300 questionnaires distributed, only 246 returned on time and were used in this study. All questionnaires are entirely voluntary and their credentials are kept confidential for research purposes.

4.3. Data Analysis

The collected data were analyzed using structural equation models with the Amos program. Analysis of structural equation models is used to explore and find out how strategic leadership can improve, strategic planning, trust in leader, and organizational performance

Hypothesis	Independent Variable	Dependent Variable	Value	C.R	P-Value	Description
1	Strategic Leadership	Trust in Leader	0.211	2.415	0.023	accepted
2	Strategic Leadership	Strategic Planning	0.233	2.345	0.025	accepted
3	Strategic Leadership	SMEs Performance	0.189	2.981	0.013	accepted
4	Trust in Leader	Competitive SMEs Performance	0.184	2.342	0.045	accepted
5	Strategic Planning	SMEs Performance	0.084	2.234	0.043	accepted

Table 2. Hypothesis testing
Source: data processed, 2019-08-16

In this study, the relationship of influence between variables can be seen in Table 2 showing the effect between the independent variable and the dependent variable. The results of this analysis indicate that Strategic leadership has an influence on trust in leaders ($p < 0.05$). These results indicate that the first hypothesis of the study was accepted. The second hypothesis testing shows that strategic leadership influences strategic planning ($p < 0.05$) so that the second hypothesis is accepted. The strategic leadership variable influencing SME performance was also accepted ($p < 0.05$), so the third hypothesis was accepted. The trust in leader variable influences SMEs performance ($p < 0.05$), and the fourth hypothesis is accepted. Then, the strategic planning variable has a positive effect on SME performance ($p < 0.05$) so that the fifth hypothesis is accepted.

5. Conclusions

The practices of strategic leadership, trust in leaders, strategic planning and SME performance have been discussed in this study. Strategic leadership includes how SME leaders are able to develop a vision, organizational culture, and balanced control in their business that will be able to increase employee confidence in the leadership that will have an impact on improving employee performance. The strategic leadership capabilities of the leader are also needed in developing strategic planning. The ability to compile strategic planning also requires a special skill in which the leader is expected to be able to have a clear view of the direction of the business being carried out and be able to control the problems and potential to improve the performance of the SME. This study also includes the body of knowledge from research conducted by Barney and Arikan (2001), which explained that the most important task of a leader is managing the company's portfolio from all aspects such as human resources, culture, financial and social capital, so that it is able creating effective leadership strategies to improve organizational performance.

This research was conducted with heterogeneity of the sample and limited scope of the study area. Participants in our study are SMEs from various sectors which could be biased in one sector of SME where each SME has its own character.

4.4. Analysis and Result

In this section, we will discuss a series of test results such as testing the validity, reliability and analysis of the results using structural equation model.

Based on table 1, it can be explained that all research variables have good reliability.

In this study, the hypothesis developed will be tested by statistical testing to provide answers to the research hypothesis that was developed, based on the results of the test, can be seen in table 2.

	Variable	Alpha Cronbach	Ket
Exogenous	Quality Strategic Leadership (X1)	0.826	Reliable
Endogenous	Trust In Leadership (Y1)	0.805	Reliable
	Strategic Planning (Y2)	0.882	Reliable
	SMEs Performance (Y3)	0.811	Reliable

Table 1. Result of Reliability Testing
Source: data processed, 2019

Based on the limitations of the study, we recommend conducting research based on the existing SME clusters or sectors so as to be able to provide an appropriate strategy for each of the existing SMEs clusters.

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